

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street, 21st Floor
San Francisco, California 94105**

RH03026432

February 26, 2003

**NOTICE OF PROPOSED ACTION AND NOTICE OF PUBLIC HEARING
REGARDING LOW COST AUTOMOBILE INSURANCE PROGRAM
UNINSURED MOTORISTS AND MEDICAL PAYMENTS COVERAGES**

SUBJECT OF HEARING

California Insurance Commissioner John Garamendi will hold a public hearing to consider rates, coverage limits, and a premium payment plan for optional uninsured motorists and medical payments coverages under the California Low Cost Automobile Insurance Program.

Effective January 1, 2003, newly-enacted low cost automobile insurance program legislation, Stats. 2002, chapter 742 (formerly SB 1427, Escutia), requires that uninsured motorists and medical payments coverages be offered to eligible consumers. Consistent with California Insurance Code Section 11580.2, the legislation provides for uninsured motorists bodily injury coverage at the lower liability limits of the underlying low cost auto insurance policy, but does not set limits for medical payments coverage. The legislation does not specify a rate, but merely states that additional premiums are authorized. In addition, the legislation provides for a new premium installment payment option of a fifteen percent deposit and six installments, without specifying if the payments are to be made on a monthly or bi-monthly basis.

To expedite implementation of the legislation through emergency regulations, the Advisory Committee of the California Automobile Assigned Risk Plan (CAARP) proposed to the Commissioner uniform rates and limits for these additional coverages. For uninsured motorists coverage, at limits of \$10,000/\$20,000, CAARP proposed a premium of \$761 for Los Angeles County and \$531 for the City and County of San Francisco. For medical payments coverage, with \$1,000 limits, CAARP proposed premiums of \$142 for Los Angeles County and \$89 for the City and County of San Francisco. CAARP also proposed that the new premium installment plan be based on six monthly payments although other existing installment payment options in the program are based on bi-monthly payments.

Upon review of CAARP's methodology and approach and independent calculations by the Department's technical staff, the Commissioner determined that lower rates than those proposed by CAARP were indicated and proposed those rates for adoption on an emergency basis, which were approved on January 10, 2003. As approved, the current

rates for uninsured motorists coverage, with limits of \$10,000/\$20,000, are \$64 for Los Angeles County and \$39 for the City and County of San Francisco. The rates for medical payments coverages, at \$1,000 limits, are \$26 for Los Angeles County and \$24 for the City and County of San Francisco.

The Commissioner will consider the current rates and CAARP's rate and premium payment proposal and invites other comments from the public. Premium rates and payment options are specified in the program's Plan of Operations, approved by the Commissioner. California Code of Regulations, Title 10, Chapter 5, Section 2498.6 references this plan.

AUTHORITY TO ADOPT RATES AND PROCEDURES AND REFERENCE

The Insurance Commissioner will consider the proposed rates and premium payment procedures pursuant to the authority vested in him by California Insurance Code Sections 11620, 11624, 11629.7, 11629.72, 11629.9, and 11629.92. Coverages, referenced in Section 25 of the Plan of Operations, are set forth in Insurance Code Sections 11629.72 and 11629.92, and amended by 2002 Stats., chapter 742. Installment premium payment options are contained in Section 26 of the Plan, and set forth in Insurance Code Sections 11629.72 and 11629.92, amended by 2002 Stats., chapter 742. Premium rates, referenced in Section 27 of the Plan of Operations, are set forth in Insurance Code Sections 11629.72 and 11629.92, and amended by 2002 Stats., chapter 742. Government Code Section 11343(a) applies to this proceeding.

HEARING DATE AND LOCATION

Notice is hereby given that a public hearing will be held to permit all interested persons the opportunity to present statements or arguments, orally or in writing, with respect to the proposed rates, limits, and premium payment option at the following date, time, and place:

Date and Time: **May 7, 2003**
 10:00 a.m.

Location: **45 Fremont Street**
 22nd Floor Hearing Room
 San Francisco, California 94105

ACCESS TO HEARING ROOM

The facilities to be used for the public hearing are accessible to persons with mobility impairments. Persons with sight or hearing impairments are requested to notify the contact person (listed below) for this hearing in order to make special arrangements, if necessary.

WRITTEN AND/OR ORAL COMMENTS: AGENCY CONTACT PERSON

All persons are invited to submit written comments to the Insurance Commissioner on the proposed rates, coverage limits, and premium payment option prior to the public comment deadline. Comments should be addressed to the contact person for this proceeding:

Mary Ann Shulman, Staff Counsel
California Department of Insurance
Rate Enforcement Bureau
45 Fremont Street, 21st Floor
San Francisco, CA 94105
Shulmanm@insurance.ca.gov
Telephone: (415) 538-4133
Facsimile: (415) 904-5490

The backup agency contact person for this proceeding will be:

Elizabeth Mohr, Assistant Chief Counsel
California Department of Insurance
Rate Enforcement Bureau
45 Fremont Street, 21st Floor
San Francisco, CA 94105
MohrE@insurance.ca.gov
Telephone: (415) 538-4112
Facsimile: (415) 904-5490

All persons are invited to present oral and/or written testimony at the scheduled public hearing.

DEADLINE FOR WRITTEN COMMENTS

All written materials, unless submitted at the hearing, must be **received** by the Insurance Commissioner at the address listed above **no later than 5:00 p.m. on May 7, 2003**. Any written materials received after that time will not be considered. Written comments may also be submitted to the contact person by e-mail and facsimile transmission. Please select only one method to submit written comments.

ADVOCACY OR WITNESS FEES

Persons or groups representing the interest of consumers may be entitled to reasonable advocacy fees, witness fees, and other reasonable expenses, in accordance with the provisions of California Code of Regulations, Title 10, Sections 2662.1-2662.6 in connection with their participation in this matter. Interested persons must submit a Petition to Participate, as specified in California Code of Regulations, Title 10, Section 2661.4. The Petition to Participate must be submitted to the Commissioner at the Office of the Public Advisor at the following address:

California Department of Insurance
Office of the Public Advisor
300 Capitol Mall, Suite 1700
Sacramento, CA 95814
Telephone: (916) 492-3500

A copy of the Petition to Participate must also be submitted to the contact person for this hearing (listed above). For further information, please contact the Office of the Public Advisor.

INFORMATIVE DIGEST

California Insurance Code Sections 11629.7 through 11629.995 establish, within the California Automobile Assigned Risk Plan (CAARP), established under Section 11620 of the Insurance Code, low-cost automobile insurance pilot programs for the County of Los Angeles and the City and County of San Francisco.

Because the pilot programs are established and administered through CAARP, CAARP procedures are applied to the low cost automobile insurance pilot programs where appropriate and not inconsistent with the low cost automobile insurance statutes. Insurance Code Sections 11620 and 11624 require the Commissioner to hold a public hearing before amending assigned risk plan rates.

Sections 11629.7 and 11629.9 of the Insurance Code require that, after a public hearing, the Commissioner shall approve or issue a reasonable plan for the equitable apportionment, among insurers, of those persons eligible to purchase a low-cost automobile insurance policy through the pilot programs. The plan also contains rules and rates. This plan, approved by the Commissioner, is referenced in Title 10, Section 2498.6 of the California Code of Regulations.

Under the pilot programs, the low-cost auto policy satisfies the financial responsibility laws and provides coverage of \$10,000 for liability for bodily injury or death to one person, subject to a cumulative limit of \$20,000 for all persons in one accident, and \$3,000 for liability for damage to property. In addition to eligibility and other requirements, the statute sets forth the initial annual premium rates. In certain cases, surcharges are added to the base rate. The statute also provides procedures for adjusting the rates.

As amended by 2002 Stats., chapter 742 (formerly SB 1427, Escutia), uninsured motorists and medical payments coverages are required to be offered under the pilot programs. The legislation does not set forth rates, but merely states that additional premiums are authorized. The legislation provides that liability limits for uninsured motorists bodily injury liability equal to the underlying low cost auto policy satisfy financial responsibility laws, but does not specify coverage limits for the medical payments coverage. In addition to existing premium payment options, the new legislation adds another option of a fifteen percent advance deposit and six installment payments, without specifying whether the payments are to be made on a monthly or bi-monthly basis.

In consultation with CAARP, the Commissioner established uniform rates and limits for these additional coverages in emergency regulations approved January 10, 2003. The initial annual premium rates established by the emergency regulations for uninsured

motorists bodily injury coverage, at limits of \$10,000 for bodily injury or death to one person, subject to a cumulative limit of \$20,000 for all persons in one accident, are \$64 per vehicle in the County of Los Angeles and \$39 per vehicle in the City and County of San Francisco. For medical payments coverage, at limits of \$1,000, the emergency regulations establish rates of \$26 per vehicle for Los Angeles County and \$24 per vehicle for the City and County of San Francisco.

Insurance Code Sections 11629.72(c) and 11629.92(c) provide that, annually, CAARP shall submit to the Commissioner a proposed rate for approval. Accordingly, CAARP submitted a proposal to implement the newly-enacted low cost auto insurance legislation on an emergency basis. CAARP proposed rates of \$761 per vehicle for Los Angeles County and \$531 for the City and County of San Francisco for uninsured motorists coverage at \$10,000/\$20,000 limits. For medical payments coverage, at limits of \$1,000, CAARP proposed rates of \$142 for Los Angeles County and \$89 for the City and County of San Francisco. CAARP further proposed that the new premium payment option be paid in six monthly payments. Further details appear in the application on file with the Commissioner, which is available for review as set forth below.

COMPARABLE FEDERAL LAW

There are no comparable existing federal regulations or statutes.

LOCAL MANDATE DETERMINATION

The Insurance Commissioner has initially determined that the proposal will not result in any new program mandates on local agencies or school districts.

COST OR SAVINGS TO AGENCIES / SCHOOL DISTRICTS / FEDERAL FUNDING

The Insurance Commissioner has initially determined that the proposal will not result in any cost or significant savings to any local agency or school district for which Part 7 (commencing with Section 17500) of Division 4 of the Government Code would require reimbursement, or in other nondiscretionary costs or savings to local agencies. Nor will the proposal affect federal funding to the state.

SIGNIFICANT STATEWIDE ADVERSE ECONOMIC IMPACT ON BUSINESSES AND THE ABILITY OF CALIFORNIA BUSINESSES TO COMPETE

Because the proposal involves rates for private passenger automobiles, the Insurance Commissioner has initially determined that the proposal will not have a significant statewide adverse economic impact directly affecting businesses, including the ability of California businesses to compete with businesses in other states. This proposal will have no effect on the creation or elimination of jobs in California, the creation of new businesses, the elimination of existing businesses in California, or the expansion of businesses in California.

COST IMPACT ON PRIVATE PERSONS OR ENTITIES

The Insurance Commissioner has initially determined that the proposal will not impact businesses, but will have a potential cost impact on private persons directly affected.

IMPACT ON HOUSING COSTS

The Insurance Commissioner has initially determined that the proposal will not affect housing costs.

SPECIFIC TECHNOLOGIES OR EQUIPMENT

The proposal would not mandate the use of specific technologies or equipment.

ALTERNATIVES

The Insurance Commissioner must determine that no reasonable alternative considered by the agency, or that has otherwise been identified and brought to the attention of the agency, would be more effective in carrying out the purpose for which the action is proposed or would be as effective and less burdensome to affected private persons than the proposed action.

The agency invites interested persons to present statements or arguments with respect to rates and coverage limits for the additional coverages and the premium payment option at the scheduled hearing or during the written comment period.

PLAIN ENGLISH

The rate application describing CAARP's proposal is in plain English. However, the application itself is based on technical actuarial principles.

TEXT AND INITIAL STATEMENT OF REASONS

The Department has prepared an Initial Statement of Reasons addressing the rate, coverage, and premium payment option alternatives, in addition to the Informative Digest included in this notice. The Initial Statement of Reasons and this Notice of Proposed Action are available for inspection or copying, and will be provided at no charge upon request to a contact person listed above. Further details of CAARP's rate application are on file with the Commissioner and available for review as set forth below.

ACCESS TO RULEMAKING FILE

Any interested person may inspect a copy of or direct questions about CAARP's proposed rate application, the statement of reasons, and any supplemental information contained in the rulemaking file by contacting the contact person listed above. **By prior appointment**, the rulemaking file is available for inspection at 45 Fremont Street, 21st Floor, San Francisco, California 94105, between the hours of 9:00 a.m. and 4:30 p.m. Monday through Friday.

AUTOMATIC MAILING

A copy of this Notice, including the Informative Digest, Initial Statement of Reasons, and proposed text is being sent to all persons on the Insurance Commissioner's mailing list.

AVAILABILITY OF DOCUMENTS ON THE INTERNET

The Initial Statement of Reasons, proposed text, and this Notice of Proposed Action will be published online and may be accessed through the Department's website at www.insurance.ca.gov.

JOHN GARAMENDI
Insurance Commissioner

Dated: February 26, 2003

By:____/s/_____
Mary Ann Shulman
Staff Counsel